Answers to Practice Questions: Topic 2

It is in your best interest to solve these questions before reading the answers here. I will ask similar questions on the test.

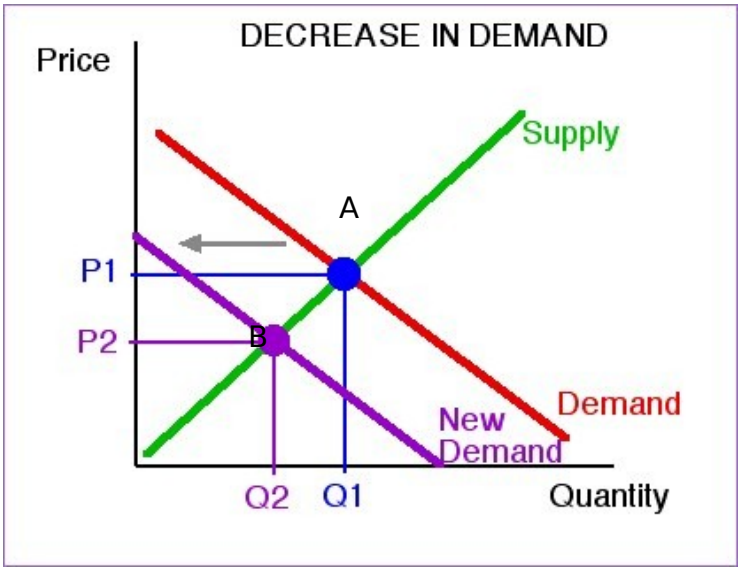
I will answer some questions in greater detail than I will require from you. These explanations are to help you recall what you already learned in class.

1. Classify the effect of each of the following as (i) a change in the demand for fish, or (ii) a change in the quantity of fish demanded. Illustrate each diagrammatically.
    a. People buy less fish because of a rise in fish prices.
    Decrease in quantity demanded of fish (movement left along the demand curve due to the resulting increase in price)
    b. The Catholic Church relaxes its ban on eating meat on Fridays.
    Demand for fish decreases (demand curve shifts to the left)
    c. The price of beef falls and, as a result, consumers buy more beef and less fish.
    Demand for fish decreases (demand curve shifts to the left)
    d. Fears of mercury poisoning lead locals to shun fish caught in nearby lakes.
    Demand for fish decreases (demand curve shifts to the left)
    e. It is generally alleged that eating fish is better for one's health than eating meat.
    Demand for fish increases (demand curve shifts to the right)
    f. Fish merchants decrease prices.
    Increase in quantity demanded of fish (movement right along the demand curve due to the resulting decrease in price)
2. For each of the following statements, determine whether there has been a change in supply or a change in quantity supplied for peaches. Draw a demand-and-supply diagram for each situation to show either a movement along the supply curve, or a shift of the supply curve.
    a. An unusually cold summer reduces the size of the peach harvest.
    The reduction in the size of the peach harvest due to bad weather is a decrease in the supply of peaches—a leftward shift of the supply curve. (For a given demand curve, this leads to an increase in equilibrium price.)
    b. People start buying more peaches, causing an increase in their prices.
    Increase in the quantity supplied of peaches (movement right along the supply curve due to the resulting increase in price).

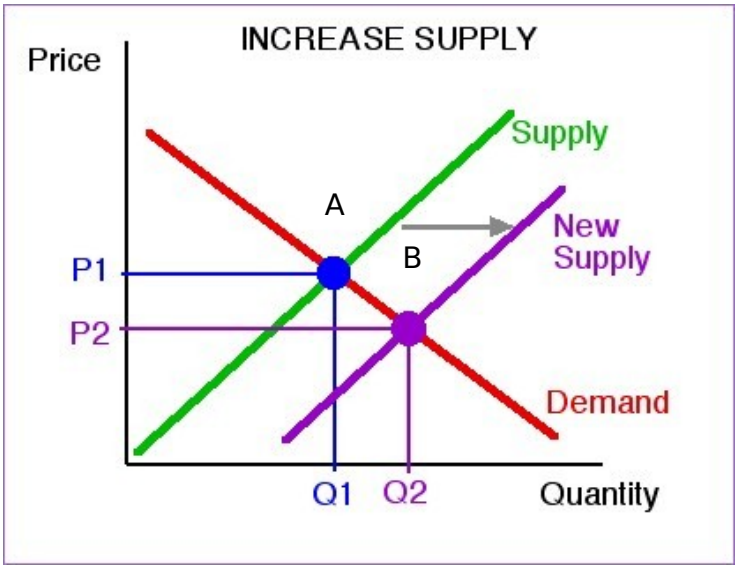
c. Technological improvements in agriculture lead to more cost-effective (cheaper) ways of growing peaches.
Supply for peaches increases due to technological improvement (supply curve shifts to the right)

d. A carnivore diet becomes popular and leads to a reduction in the price of peaches and fewer peaches being sold.
This is a shift in demand, not supply (because the price has decreased, there is a movement left along the supply curve).

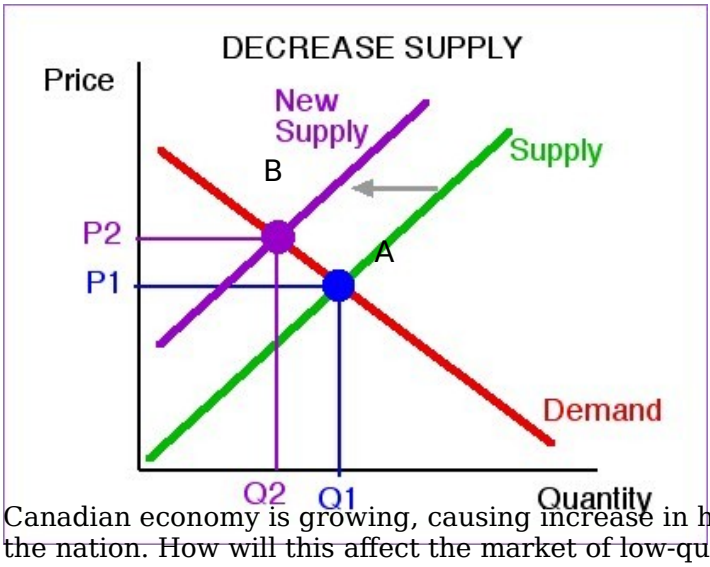
3. Assume that apples and oranges are substitute goods. What effect will a reduction in the price of oranges have on the market for apples? Illustrate on the graph and explain.
As consumers switch from apples to oranges, demand for apples falls, causing lower equilibrium price and equilibrium quantity:



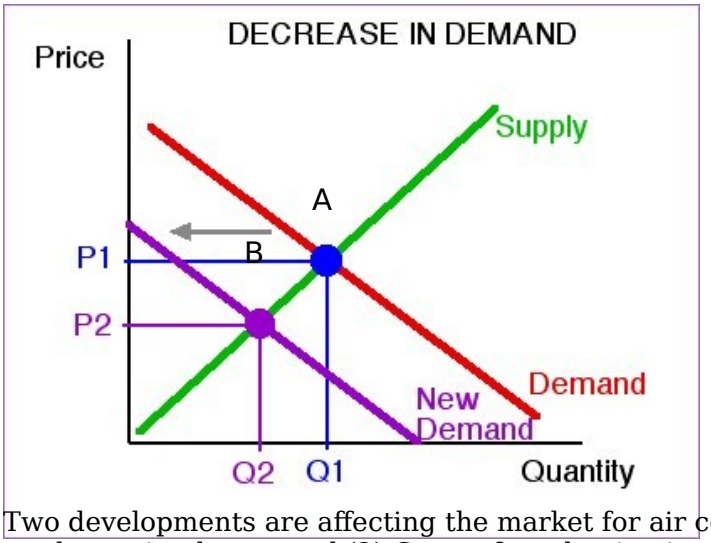
4. More and more restaurants are opening up on the Plateau in Montreal. How will this affect the market for restaurant meals on the Plateau?
This means more restaurant meals will be sold at any price, supply curve shifts to the right (increases). P↓ Q↑



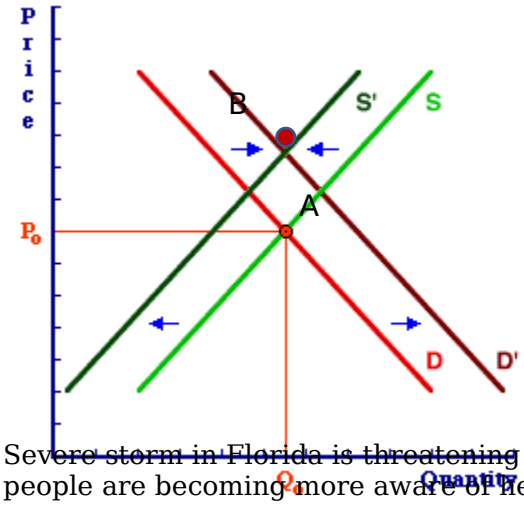
5. Hurricane Harvey caused shutdowns on many oil refineries in Texas. Since oil is the main component of gasoline, what effect will this development have on the market for gasoline?
   Since gasoline production will fall no matter what price, Supply decreases (shifts left), causing increase in equilibrium price and decrease in equilibrium quantity.



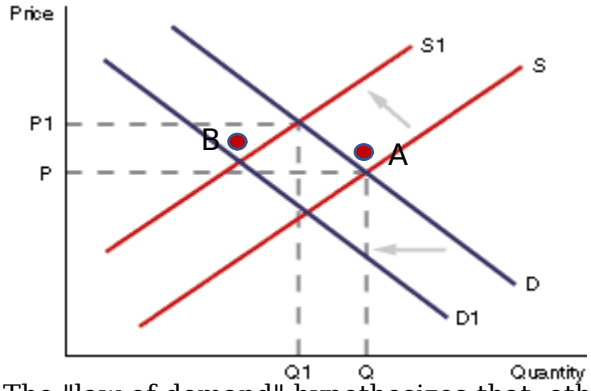
6. Canadian economy is growing, causing increase in household incomes throughout the nation. How will this affect the market of low-quality clothing?
   Low-quality goods are inferior goods. Increase in income will decrease people's demand for inferior product, because they can now afford better-quality goods. P↓ Q↓



7. Two developments are affecting the market for air conditioning units: (1) Summers are becoming hotter and (2) Costs of production increased due to higher minimum wage. Show how these developments are affecting the market for A/C.
   (1) Demand increases, as people demand more A/C units, increasing P and Q
   (2) Supply decreases due to higher cost (hence lower profits), increasing P and decreasing Q.
   Note that the total effect of this will be a higher equilibrium price, but the overall effect on the equilibrium quantity will be uncertain: P↑ Q?



8. Severe storm in Florida is threatening the harvest of oranges. At the same time, people are becoming more aware of health risks stemming from added sugar in the orange juice. Illustrate on the graph, how these two developments will affect the market for orange juice.
The storm will negatively affect supply of orange juice (P↑, Q↓), while people's awareness of health risks from sugars in the orange juice will cause them to decrease demand for orange juice (P↓, Q↓). The overall effect on equilibrium price is uncertain, while the quantity definitely decreases: P? Q↓



9. The "law of demand" hypothesizes that, other things being equal,
A) the lower the price, the greater the demand.
B) price and demand vary inversely.
C) the higher the price, the lower the quantity demanded.
D) the higher the income, the higher the quantity demanded.
E) price and quantity demanded are positively related.

10. A normal good is one
A) that everyone normally consumes.
B) that normal people consume.
C) for which demand is positively related to household income.
D) for which demand is negatively related to household income.
E) for which demand is not related to household income.

11. What is an inferior good?
A) a good that everyone normally consumes
B) a good that inferior people consume

C)) for which demand is positively related to household income.
D) for which demand is negatively related to household income.
E) for which demand is not related to household income.

12. Consider butter and margarine, which are substitutes. When the price of butter falls, the demand curve for margarine is likely to

A) shift to the right.
B) shift to the left.
C) remain stationary.
D) remain stationary, although its price will fall.
E) remain stationary, although its price will rise.

13. Consider cars and gasoline. Other things being equal, when the price of cars decreases, the demand for gasoline is likely to

A) remain unchanged because cars and gasoline are produced independently of one another.
B) decrease because the two goods are complements.
C) remain unchanged.
D) increase because the two goods are complements.
E) remain unchanged because cars and gasoline are two distinct markets.

14. In which statement is the term "demand" used correctly? (1) A decrease in the price of airline tickets led to an increase in quantity demanded for airline tickets. (2) A decrease in the price of airline tickets led to an increase in the demand for airline tickets.

A) neither statement
B) the first statement only
C) the second statement only
D) both statements
E) more information is needed

15. A rightward shift in the supply curve indicates

A) a decrease in the quantity supplied at each price.
B) that an increase in income results in an increase in the quantity demanded at each price.
C) that more is demanded at each price.
D) an increase in the quantity supplied at each price.
E) a shift in the demand curve also (because demand must equal supply).

16. A "decrease in supply" refers to which of the following?

A) the likely result from a decrease in the price of a factor of production
B) a downward movement along a supply curve
C) a decrease in quantity supplied
D) a leftward shift in the supply curve
E) a drop in the quantity actually exchanged

17. A fall in the price of potatoes, which are used in the production of french fries, will

A) lead to a decrease in the supply of french fries, causing the supply curve of french fries to shift to the left.
B) lead to an increase in the supply of french fries, causing the supply curve of french fries to shift to the right.
C) have no effect on the supply of french fries.

D) have no effect on the supply of french fries but cause a movement along the supply curve of french fries.
E) lead to a decrease in the demand for french fries.

18. "Excess demand" can also be described as
A) excess supply.
B) the area to the left of the equilibrium price on a supply and demand diagram.
C) quantity demanded exceeding quantity supplied.
D) quantity supplied exceeding quantity demanded.
E) the area to the right of the equilibrium price on a supply and demand diagram.

The supply and demand schedules for dozens of roses are given below:

Price	Quantity Supplied per period	Quantity Demanded per period
$10	200	500
$20	300	450
$30	400	400
$40	500	350
$50	600	300

TABLE 3-1

19. Refer to Table 3-1. The equilibrium price for a dozen roses is
A) $10.
B) $20.
C) $30.
D) $40.
E) $50.

20. Refer to Table 3-1. How many dozens of roses would actually be purchased if the price in this market were $10?

A) 200
B) 300
C) 350
D) 400
E) 500

21. Refer to Table 3-1. At a price of _____ there would be an excess _____ of 300 dozen roses.
A) $10; supply
B) $30; supply
C) $10; demand
D) $50; demand
E) $30; demand

22. Refer to Table 3-1. At a price of _____ there would be an excess _____ of 300 dozen roses.
A) $30; supply

B) $50; demand
C) $10; demand
D) $50; supply
E) both C and D are correct

23. Refer to Table 3-1. How many dozen of roses would actually be purchased if the price in this market were $40?

A) 150
B) 350
C) 200
D) 500
E) 850

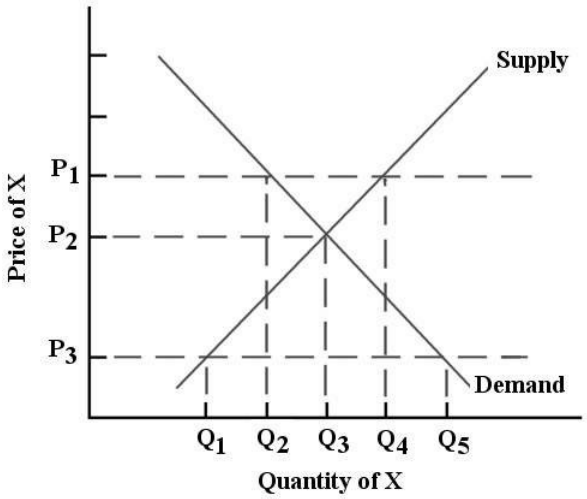


FIGURE 3-3

24. Refer to Figure 3-3. At a price of P_2 there would be excess demand equal to

A) 0.
B) Q_1 Q_5.
C) Q_2 Q_4.
D) Q_1 Q_3.
E) Q_3 Q_5.

25. Refer to Figure 3-3. At a price of P_1 there would be excess supply equal to

A) 0.
B) Q_1 Q_5.
C) Q_2 Q_4.
D) Q_1 Q_2.
E) Q_4 Q_5.

26. Aeronautical engineers are a factor of production for airplanes. What will happen in the world market for airplanes when there is a worldwide shortage of aeronautical engineers?

A) price will increase, quantity exchanged will decrease
B) price will increase, quantity exchanged will increase
C) price will decrease, quantity exchanged will decrease
D) price will decrease, quantity exchanged will increase

E) there will be no change in price or quantity exchanged
The answer is A, because as we lack engineers, supply of airplanes shifts to the left, resulting in higher equilibrium price and lower equilibrium quantity.